

Statement of
HONORABLE RUDY DE LEON
Under Secretary of Defense
(Personnel and Readiness)

Before The
Military Personnel Subcommittee
House Committee on Armed Services

On
Sustaining the All-Volunteer Force
(Military Recruiting and Retention)

March 8, 2000



HONORABLE RUDY DE LEON UNDER SECRETARY OF DEFENSE (PERSONNEL AND READINESS)

Rudy de Leon was sworn in as the Under Secretary of Defense for Personnel and Readiness in August 1997. A Presidential appointee confirmed by the Senate, he is the Defense Secretary's senior policy advisor on recruitment, career development, pay and benefits for 1.5 million active duty military personnel, 1.5 million Guard and Reserve personnel and 800,000 DoD civilians.

The USD (P&R) also oversees the \$15 billion Defense Health Program, Defense Commissaries and Exchanges with \$5 billion in annual sales, a Defense Education Activity that supports over 100,000 students, and the Defense Equal Opportunity Management Institute which is the nation's largest equal opportunity training program. In addition, Mr. de Leon is responsible for monitoring and developing policy guidance for military readiness.



Initiatives underway in the Personnel and Readiness arena include a major review of military personnel policies and practices concerning good order and discipline, introduction of a demonstration project to provide medical benefits for MEDICARE eligible military retirees and their families, and increased use of National Guard and Reserve units to perform peacetime operational missions worldwide.

Prior to his current position, Mr. de Leon served as Under Secretary of the Air Force where, during his three year tenure, he focused on maintaining high quality personnel, force readiness and an affordable modernization program that included the F-22 fighter and C-17 airlifter. His two-year program review of the C-17 led to \$5 billion in cost reductions and an unprecedented seven-year multi-year procurement. In addition, Mr. de Leon worked to institute fundamental changes in U.S. military force protection practices when the Department of Defense Anti-Terrorism Action Team was established after the 1996 Khobar Towers bombing in Saudi Arabia.

Rudy de Leon began his career in federal government 21 years ago. Prior to serving as a special assistant to Secretary of Defense Les Aspin in 1993, he was the staff director for the Committee on Armed Services of the U.S. House of Representatives. In this capacity, he was responsible for the Committee's consideration of annual defense budgets, helped draft the Goldwater-Nichols Defense Reorganization Act and oversaw the 1990 legislation that authorized the use military force in the Persian Gulf.

EDUCATION:

1974 Bachelor of arts degree in history, Loyola University at Los Angeles

1984 Executive Program in National and International Security Affairs, John F. Kennedy School of Government, Harvard University

1987 Seminar XXI Program in Foreign Politics, International Relations and the National Interest, Massachusetts Institute of Technology

AWARDS AND HONORS:

Mr. de Leon received the Department of Defense Medal for Distinguished Public Service in February 1994 and again in May 1995. He was presented with the Department of Defense Exceptional Civilian Service Award in August 1997.

The Air Force Association presented Mr. de Leon its Special Award in September 1996 for his advocacy of aerospace power.

Mr. Chairman and members of the Subcommittee, I am pleased to appear today to discuss the cornerstones in sustaining America's All-Volunteer Force—recruiting and retention.

I would begin by thanking you, on behalf of the men and women in uniform, for your support last year in providing them with a well-earned pay raise, comprehensive pay table reform, and retirement options. These initiatives are an important first step in our efforts to recruit and retain the high caliber men and women we need in America's All-Volunteer Force. Today's All-Volunteer Force must compete to attract and retain talent in an economy that offers expanded job and educational opportunities to America's youth. In doing so, we must focus not just on recruiting the Force, but on retaining the talent needed to face the challenges of tomorrow.

Our Fiscal Year 2001 budget and legislative programs are designed to respond to those challenges.

Let me now turn to a review of our strategies for achieving strength goals, and the relationship among retention, attrition, and recruiting in achieving those ends.

STRENGTH

Unit performance depends first and foremost on its strength -- having enough people to do the job. The strength is derived from three components that we must continually balance -- recruiting capable people, controlling initial-term attrition, and retaining the skill and grade mixes required to fill our force structure. To the extent we are successful in meeting retention goals and managing attrition, recruiting missions may be lowered. Should any of the three

components fall below programmed goals, and should the other components fail to compensate for the shortfall, we would soon witness personnel shortages across operational units. Naturally, those shortages drive up workloads and deployment tempo, frustrating both members and families.

Fiscal Year (FY) 1999 strength objectives were achieved by all components of the "Total Force" except the active Air Force, which fell short by slightly more than one percent, and the Air Force Reserve which missed strength by approximately 1,000 personnel. The Army employed a modest surplus in retention to offset a recruiting deficit, while the Navy offset a retention problem with a stronger than planned recruiting performance. Thus, success was achieved by offsetting a weakness in one area with the strength of another -- stronger retention compensating for weaker recruiting and vice versa. There is no single solution to achieving needed strength levels; recruiting and retention programs must be constantly adjusted. Let me now discuss how each of the programs that generate strength is being carried out, beginning with recruiting.

RECRUITING

General Trends

The number of young people in the national population is growing by about 250,000 annually. Today, there are about 11.5 million young men, ages 18 to 23, compared to roughly 10.6 million in 1996. However, recruiting efforts now are challenged by a variety of factors: a robust national economy, the lowest unemployment levels in nearly 30 years, greater employment opportunities for the non-college market and more high school graduates opting to attend college. While this has been good news for America, it has presented new challenges for military recruiting. Key influencers of young adults—parents, teachers, coaches—have less familiarity or personal experience with the military. Thus, they are less inclined to encourage young adults to explore the many benefits of military service.

RECRUIT QUALITY IS IMPORTANT

Recruit characteristics are generally assessed along two lines – aptitude and educational achievement. Both are important, but for different reasons.

All military applicants take a written enlistment test called the Armed Services Vocational Aptitude Battery (ASVAB). One component of that test is the Armed Forces Qualification Test, or AFQT, which measures math and verbal skills. Those who score above average on the AFQT are in Categories I-III A. We value these higher-aptitude recruits because their training and job performance are superior to those in the lower (below average) groupings (Categories IIIB-IV).

Research shows a strong correlation between AFQT scores and on-the-job performance, as measured by hands-on performance tests across a range of occupations. In Figure 1, we show that relationship. Even with on-the-job experience, enlistees with lower aptitude continue to lag behind those with higher aptitude. For example, Category IV recruits, with three years experience, never catch up with the level of performance at which the higher-aptitude recruits (AFQT Categories I-II) begin.

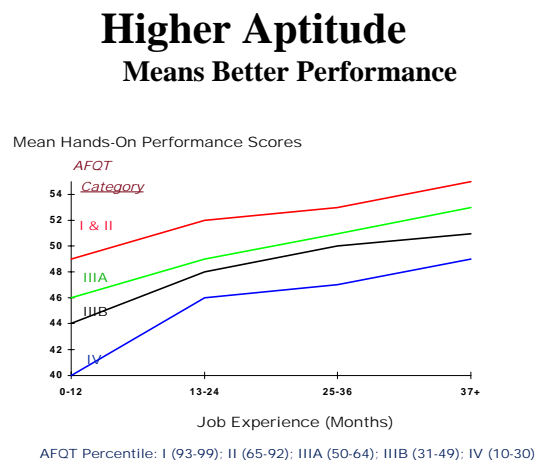


Figure 1

We also value recruits with a high school diploma because years of research and experience tell us that high school diploma graduates are more likely to complete their initial three years of service. About 80 percent of recruits who have received a high school diploma will complete their first three years, yet only about 50 percent of those who have not

completed high school will make it. Those holding an alternative credential, such as a General Education Development (GED) high-school-equivalency certificate, fall between those two extremes.

It costs taxpayers more than \$35,000 to replace (recruit, train, and equip) each individual who leaves service prematurely. This argues for recruitment of those who are most likely to adapt to military life and stay the course -- the high school diploma has been a reliable indicator of "stick-to-itiveness."

As I will discuss later in my statement, the fact that GED holders are retained at a greater rate than non-graduates has generated new initiatives to expand recruiting without driving up attrition. These initiatives consider other attributes that suggest personal resolve toward completing a service obligation.

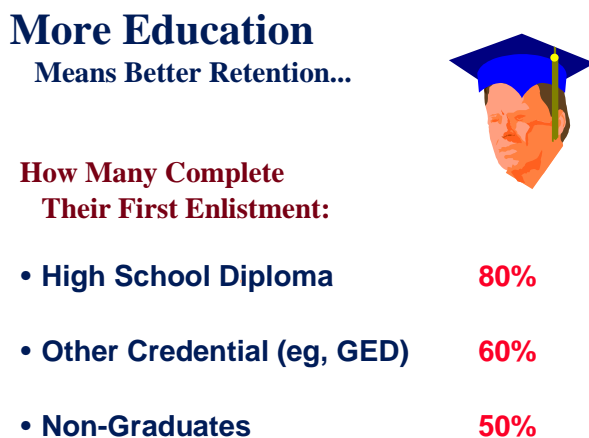


Figure 2

To put all of this in perspective:

- In FY 1999, 66 percent of new recruits scored in AFQT Categories I-III compared to 50 percent of the youth population. Higher levels of aptitude serve to increase hands-on job performance -- and that means productivity, which is essential to unit performance and readiness.

- About 78 percent of American youth, ages 18 to 23, hold a high school diploma. In FY 1999, 93 percent of our active-duty recruits held that credential.
- In FY 1999, the Services enlisted 12,468 non-high school graduates. Of these, 10,615 held alternative credentials such as a GED, of which, 99 percent scored above average on the ASVAB. While their attrition rates may be higher, on average, than those of traditional high school diploma graduates, their aptitude scores indicate that they are more trainable and will have better job performance than their lower scoring high school graduate peers.

In conjunction with the National Academy of Sciences, the Department developed a mathematical model that links educational attainment, aptitude, and recruiting resources to job performance. This model was used to establish recruit quality benchmarks of 90 percent high school diploma graduates and 60 percent scoring above average on the enlistment test. Those benchmarks were set by examining the relationship between costs associated with recruiting, training, attrition, and retention using as a standard the performance level obtained by the enlisted force of 1990. Thus, the benchmarks reflect the aptitude and education levels necessary to minimize personnel and training costs while maintaining the performance level of the force that served in Operations Desert Shield and Desert Storm.

DoD Recruit Education and Aptitude...

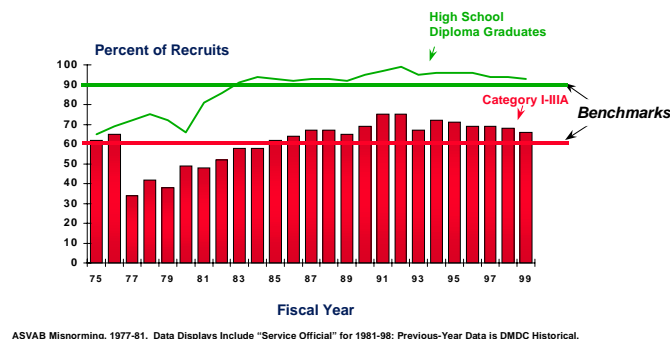


Figure 3

Since the mid 1980s, all Services have recruited at levels above the DoD benchmarks. While there has been some slight decline over the past several years, when comparing aptitude and education with historical trends, today's entering recruit quality remains excellent. In the current recruiting environment, the Services have made measured adjustments in the mix of individuals with above average aptitude scores and high school diploma graduates – these efforts help maintain needed performance levels while balancing recruiting costs, attrition risks, and training requirements. At the request of Congress, we are revalidating the recruit quality benchmarks in light of the current recruiting market and the cost of recruiting high-quality youth. We will submit this report by the end of March 2000, as requested.

FY 1999 RESULTS

During FY 1999, the Services recruited 235,268 first-term enlistees and an additional 91,982 individuals with previous military service for a total of 327,250 recruits-- attaining 92 percent of the Department's goal of 353,814 accessions. These recruiting goals derive from our strength objectives, in comparison with loss patterns. Making good on the recruiting numbers provides greater assurance that units will have the right number of people to successfully perform their missions.

The active component Services achieved 96 percent of their numeric recruiting objectives, falling short by 7,912 enlistees. The Navy and Marine Corps achieved 100 percent of their goals. The Army achieved 92 percent of its mission, realizing a shortfall of 6,291 recruits. The Air Force reached 95 percent of its numeric goal, missing its target by 1,727 individuals.

Overall, the Army National Guard and Marine Corps Reserve achieved their numeric goals, with the Reserve Components accomplishing 88 percent of their objectives. Collectively, 68 percent of Reserve Component enlistees had above average aptitude and 90 percent were high school diploma graduates. Virtually all prior service recruits were high school diploma graduates with above average aptitude.

The Delayed Entry Program (DEP) allows the Services to control the flow of new recruits into the training pipeline, permits high school seniors to enlist even though they will not enter training until after graduation, and affords recruits the opportunity to select job skill training that

may not be immediately available. A healthy DEP relieves the pressure on recruiters and facilitates recruiting and training management. Each Service determines its own goal as a percentage of the upcoming year's mission. As shown in Table 2, the Army, Navy and Air Force began FY00 well below their desired DEP levels. Although the Marine Corps achieved its desired begin-year DEP level, its posture was significantly lower than it had been in previous years, indicating that the Marine Corps also is experiencing a recruiting challenge.

When a Service begins the fiscal year below its desired DEP posture, two problems emerge. First, the shortfall must be made up during the recruiting year; second, those intense catch-up efforts leave little time to build the DEP, creating another deficit at the start of the next recruiting year. FY 2000 will be a challenging year to contract applicants for the shipping mission and to begin the slow process of rebuilding the beginning-of-year DEP.

FY 2000 Starting DEP Percentages				
	Army	Navy	Marine Corps	Air Force
FY 2000 Mission	80,000	57,370	33,367	34,000
FY 2000 Starting DEP	22%	28%	50%	32%
Service DEP Goal	35%	43%	50%	43%

Source: Service Recruiting Commands

Table 2

With regard to officer accession programs, we see emerging shortages in the number of graduates needed for both Army and Air Force ROTC. The production of Army lieutenants from ROTC is projected to be about 10 percent below goal for the next few years. The Air Force is presently meeting objectives but estimates commissioning shortages of perhaps 10 percent by FY 2002-2003. These shortages are a result of a combination of under-recruiting and attrition, in part attributable to the low value of the monthly stipend provided to ROTC program members. We now are evaluating the potential effects of adjusting the value of the monthly stipend for ROTC students.

FY 2000 YEAR-TO-DATE RESULTS

Through the first four months of this fiscal year (October 1999 - January 2000), the Department achieved 95 percent of its shipping mission, enlisting 90,738 young men and women. This is commensurate with previous years (at this point in FYs 1998 and 1999, 95 and 96 percent of year-to-date missions had been achieved, respectively). Of the active

Services, the Army, Navy and Marine Corps met or exceeded their objectives for the first four months. In the Reserve Component, the Army National Guard and Marine Corps Reserve met or exceeded their fiscal year-to-date goal. Recruit quality remains high.

ACTIONS TO ADDRESS RECRUITING CHALLENGES

MARKET EXPANSION -- ALTERNATIVE EDUCATION CREDENTIALS

One of the best ways to improve recruiting is to expand the market of eligible youth. We are pursuing this in a variety of ways. While recruits holding a high school diploma normally have the highest probability of completing their enlistment, we recognize that individuals holding other education credentials have also performed well in the military. In that regard, we continue to seek ways to identify non-HSDGs whose likelihood of success is closer to that of conventional high school diploma graduates.

The Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 mandates a five-year pilot project to attract more home schooled graduates and ChalleNGe-GED holders to the military by treating them as high school diploma graduates for enlistment purposes. During the first year of the test, 1,228 home schoolers and 461 ChalleNGe participants entered active duty. Once we have sufficient numbers to permit valid analyses, we will assess the military performance and attrition behavior of these recruits to determine their appropriate enlistment priority.

In addition, the Army recently launched a four-year test program called GED Plus. This program will give some individuals who left high school before obtaining their diploma an opportunity to earn a GED and enlist in the military. GED holders in this special test will have to meet stringent criteria: they must have left school voluntarily, but now cannot return because of age; they must not require moral character waivers for enlistment; they must score in the top half on the enlistment test (AFQT Categories I-III A); and they must receive a passing score on the Army's motivational screen (Assessment of Individual Motivation or AIM). The AIM is being used to protect the Army from the increased risk of attrition posed by GED holders. Further, since GED Plus graduates will be required to have scores in AFQT Categories I-III A, job performance should not be adversely affected.

MARKET EXPANSION -- PURSUING THE COLLEGE MARKET

The Services are also expanding recruiting efforts to the college market. Education statistics show that college enrollment rates and tuition costs have increased dramatically; therefore, the Army, Navy and Marine Corps offer college funds of up to \$50,000 for certain skills. To further appeal to this market, the Army, Navy, and Air National Guard offer a Loan Repayment Program for qualifying recruits. Because increasing numbers of high school students consider themselves to be college bound, the Army, for example, has implemented a test program called College First. Recruits will be allowed to go to college either during their time in the Delayed Entry Program, or while serving in the Selected Reserve. Upon completion of a two-year college program, the recruit will begin active duty.

The Navy also has a program, called Tech Prep, which helps prepare prospective recruits academically for technical training, while providing them with the opportunity to receive an associate degree from participating community colleges. This increases the appeal of a military career to the college-bound high school market and to educators. We believe Tech Prep has cross-Service applications and now are developing a plan to publicize the program and facilitate the necessary interaction between the Services and educational institutions.

Finally, we are sponsoring a project by RAND Corporation to examine policy options for recruiting the college market. The objective of the project is to identify policies that will be successful in reaching and attracting college-oriented youth into the military. The project will design and administer a survey to youth with some college as well as college-bound youth. The results will be used to identify effective policies to attract them to the military, examine alternative methods of reaching youth who have left a college program, and evaluate current and emerging programs, such as College First and Tech Prep, targeted at this segment of the youth population.

MARKET EXPANSION – WORKING WITH EXTERNAL AGENCIES

Continued improvement in our marketing requires the involvement of a wide variety of agencies. In that regard, we have entered into dialogue with the Departments of Education and

Labor, and with AmeriCorps, to explore ways that youth oriented programs can assist military recruiting. We also are working with the Selective Service System (SSS) to more fully exploit its state-level assets in encouraging cooperation between educators, community leaders, and military recruiters. Of particular interest in our work with SSS is the potential that its state-level resources might help in gaining access to more high schools that presently provide less than a full measure of cooperation to military recruiters.

STIMULATING INTEREST – JUNIOR RESERVE OFFICERS TRAINING CORPS (JROTC)

While the Junior ROTC program is not a recruiting function, the presence of JROTC units in high schools enhances military awareness among students, parents, faculty, and the local community. This is important since a smaller military has generated fewer veterans in communities around the country. Recent surveys reveal that youth who had been exposed to people with military experience enjoyed a far greater understanding of the nature of military life than those who had no such exposure. Moreover, the program builds better citizens, which strengthens the nation while enriching the values of prospective recruits.

With regard to recruiting, surveys of Junior ROTC cadets indicate that about 35 percent of the graduating high school seniors in School Year 1997-98 with more than two years participation in the JROTC program are interested in some type of military affiliation (active duty enlistment, officer program participation, or service in the Reserve or Guard). Translating this to hard recruiting numbers, in FYs 1996-1999, about 8,000 new recruits per year entered active duty after completing two years of Junior ROTC. The proportion of JROTC graduates who enter the military following completion of high school is roughly five times greater than the proportion of non-JROTC students

Presently, about 2,600 JROTC units are operating – fewer than the 3,500 units authorized by law. However, in August 1999, DoD leadership earmarked sufficient resources within the Defense Budget to ensure that the 3,500-unit goal will be achieved by FY 2005. To that end, 148 additional units are being established in FY 2000, with another 157 coming on line in FY 2001.

STIMULATING INTEREST -- ENLISTMENT INCENTIVES

The National Defense Authorization Act for FY 2000 increased the maximum enlistment bonus to \$20,000 for a four-year or longer tour of duty, and allowed the Army to offer up to a \$6,000 bonus for a two or three-year enlistment. The Act also permits the Services to award an enlistment bonus and a college fund to the same recruit. Currently, the Army offers the new ceiling of \$20,000 for selected specialties, the Navy and Air Force offer up to \$12,000 enlistment bonuses and the Marine Corps maximum is \$6,000. Virtually all of the Reserve Components offer a non-prior service enlistment bonus.

In an effort to recruit effectively during the traditionally low-flow spring months, the Army, Navy and Air Force have implemented special bonuses. The Army's plan is a rolling bonus that offers \$6,000 to ship to basic training within 30 days, \$4,000 to ship within 60 days and \$2,000 to ship within 90 days. The Navy and Air Force programs offer bonuses (\$5,000 for the Navy and \$1,000 for the Air Force) to applicants who enlist between February and May, typically the hardest recruiting months.

STIMULATING INTEREST -- STRONGER RECRUITER REPRESENTATION

The Air Force now has filled most of its recruiter vacancies, and within a year plans to increase recruiter manning by close to 20 percent (up to 1,450). Recruiter strength for the Army Reserve, Naval Reserve and Air Force Reserve also is increasing. Additionally, the Services are bringing recent training graduates, and members returning from deployments back to their hometowns to give prospective recruits and their families first-hand accounts of what military service means for them. These initiatives are bringing in large numbers of quality referrals.

STIMULATING INTEREST -- EDUCATION BENEFITS

Education benefits constitute an important incentive to enlist, and the Department firmly believes the Montgomery GI Bill (MGIB) program plays an integral role in helping attract high-quality recruits. In fact, most new enlistees give "money-for-college" as their main reason for joining the military. Under current provisions, all recruits are automatically entered into the MGIB program upon active-duty enlistment, unless they specifically decline enrollment.

For those who remain enrolled in the MGIB, a reduction of \$100 per month is applied to basic pay for the first 12 months of service for a total of \$1,200. Benefit rates for full-time study are currently \$536 per month for a maximum of \$19,296 for an enlistment of three years or more, and \$436 per month for a maximum of \$15,696 for a two-year enlistment. These rates are proportionately reduced for less than full-time study.

Additionally, the Army, Navy, and Marine Corps supplement the basic MGIB with Service College Funds (kickers) to attract and channel high-quality recruits into critical specialties. These kickers, when combined with the basic MGIB, can go up to \$50,000--equating to a monthly benefit of \$1,389.

While many will agree that MGIB enhancements would help the Department with recruiting, large across-the-board benefit increases would be costly, may raise the risk of reduced retention beyond the first term, and may make it more difficult to target Service occupations that have the greatest need. In fact, kickers are a more cost-effective way to channel high-quality recruits into hard-to-fill specialties.

STIMULATING INTEREST -- ADVERTISING

One of our greatest recruiting challenges today is sustaining interest among American youth in joining the military. Many young men and women do not know of the merits military service has to offer as fewer of those that influence potential recruits -- parents, relatives, teachers, coaches, and guidance counselors -- have military experience of their own.

At the start of this decade, recruitment advertising budgets were cut by more than half from their mid-1980 levels. Recognizing the difficulty in recruiting over the past several years, the Department, with help from this Subcommittee, has been increasing advertising resources (Figure 4) from the low in FY 1993.

Advertising Coming Back in Balance...

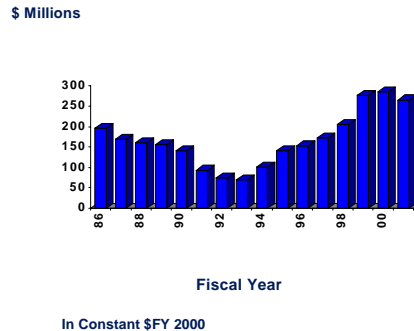


Figure 4

Recruiters hope to influence young people's perceptions so that they consider enlistment from among the many post-high school options available to them. Advertising is used to increase awareness about military opportunities while conveying positive perceptions of the Services, which in turn helps recruiters accomplish their difficult job.

The Joint Recruiting Advertising Program complements Service-specific advertising by raising and sustaining awareness of military opportunities and options both for prospective enlistees and for those people who influence their decision to enlist. Service-specific advertising, on the other hand, focuses on creating enlistment-related behavior in the prospect market. Because of the growing complexity of military systems and operations, we must attract young men and women who have many career alternatives – bright, task-focused, self-starters who can handle high-technology equipment in a fluid operational environment. This limited pool of high-quality prospects also is aggressively sought by colleges, universities, and the private sector.

Recently, the Department completed a comprehensive review of recruitment advertising by a team of advertising consultants. In August 1999, the firms of Bozell/Eskew and Murphy, Pintak, Gautier, and Hudome reported their findings and recommendations to the Secretary of Defense. The consultants looked at several components of the advertising program: market research, creative approaches, media placement, and contract management and program oversight. The

results of the so-called “Eskew-Murphy” review concluded that we must become **the** resource on American youth; and that we increasingly should conduct short-term, quick-response surveys, focus groups and so forth on youth values, opinions, and attitudes toward the military.

The review also concluded that we should create a DoD Marketing Director position to integrate the Department’s communication activities. Finally, the review underscored the fact that stronger use of the Internet is important to advertising efforts. We have begun implementing these recommendations and will provide you with more details about that implementation in a report to Congress due on March 31, 2000.

UPDATING PROCESSES – REENGINEERING AND PRIVATIZATION

As part of its action on the National Defense Authorization Act for FY 2000, Congress noted that, “*the severity of recruiting challenges facing the Services and the amount of funds already dedicated to all aspects of the recruiting mission argue in favor of aggressive, innovative experiments and pilot programs that go beyond merely addressing the margins of traditional practices.*” The Department agrees and is piloting a number of initiatives.

The approach to our reengineering and privatization test includes evaluating the contribution each initiative makes toward improved recruiting productivity. We have selected promising initiatives, developed test scenarios, and determined appropriate measurement approaches. We have begun to collect data and will evaluate the initiatives.

In partnership with the Naval Postgraduate School’s Center for Recruiting Innovation, we are developing a prototype, online virtual recruiting station, and exploring new and creative ways to increase traffic and exposure of military Internet sites through multi-level interactive games and improved web sites. Additionally, we are testing the use of mobile recruiting kiosks offering Internet and Internet-like access at high traffic locations such as community colleges, high schools, shopping malls, and special events. These efforts are complemented with a test using civilian telemarketing to make initial contact with prospective applicants to generate more effective leads for recruiters, thus allowing the recruiters to focus on their core competency – face-to-face contact to sell military service.

In addition, we are testing the feasibility of conducting enlistment processing at locations closer to our applicants by using civilian contract medical examinations, aptitude testing, and individual job classification. The convenience of such remote enlistment processing promises to expand participation in eligibility screening. We also are testing the benefits of outsourcing administrative functions to relieve recruiters of clerical and administrative duties and allow them to focus on their core functions. Finally, the Department is capitalizing on recent advances in technology through the purchase of automated scanners to support “electronic fingerprinting” – an initiative which allows the Services to expand searches to state and local law enforcement databases, reducing the potential that pre-service criminal behavior would be overlooked. Through an investment of about \$6 million in FY 2000, we plan to have this capability in place by the end of the current fiscal year.

While these initiatives are far-ranging and diverse, we anticipate the following results:

- Determining which initiatives contribute to increased recruiting productivity.
- An understanding of initiatives that could be expanded within Services and/or across Services.
- Identification of new and promising initiatives that could be tested and evaluated in future studies.

Given today’s recruiting challenges, it is essential that the Department develops innovative strategies to attract high-quality enlistees. The Recruiting Reengineering and Privatization Test will span the next several years with a report due to Congress in FY 2002.

PROPENSITY

Since 1975, the Department of Defense annually has conducted the Youth Attitude Tracking Study (YATS), a computer-assisted telephone interview of a nationally representative sample of 10,000 young men and women. This survey provides information on the propensity, attitudes, and motivations of young people toward military service. Enlistment propensity is defined as the percentage of youth who state they plan to “definitely” or “probably” enter

military service in the next few years. Research has shown that the expressed intentions of young men and women are strong predictors of enlistment behavior.

Results from the 1999 YATS survey show increased propensity for military service. In 1999, 29 percent of 16 to 21 year-old men indicated a propensity for active duty in at least one of the Services. Although propensity remains below the 34 percent level of 1991, it has increased significantly over the 26 percent level that has prevailed the past few years. Results also suggest young women's propensity has increased. In 1999, 15 percent of 16 to 21 year-old women indicated a propensity for military service. This is significantly greater than the 12 percent level in 1997, and is up from the 13 percent level in 1998.

Changes in propensity for Reserve Components also are encouraging. Twenty-one percent of 16 to 21 year-old men indicated positive propensity for service in a Reserve or National Guard component, a significant increase over the 19 percent level in 1998. Increased Reserve propensity also was evident among young women. In 1999, 11 percent of 16 to 21 year-old women indicated interest in the Reserves and/or National Guard, compared to 9 percent in previous years.

Recent years have provided the greatest challenge to recruiting since the advent of the All-Volunteer Force. Although a robust economy continues to provide rich post-high school opportunities, these 1999 YATS results suggest that Service recruiting messages are getting through to America's youth. Nevertheless, aggressive recruiting efforts are required to transform interest in the military to actual enlistment commitments.

RECRUITING RESOURCES

High quality recruits come at a cost. As Figure 6 indicates, there has traditionally been a positive correlation between the money spent on recruiting and the percent of our new recruits who are high school diploma graduates and score above average on the enlistment test. As the lines begin to diverge in about FY 1993 -- meaning that greater investments no longer translate to higher quality -- it is clear that additional factors are at work. Those factors are a strong economy which features excellent employment opportunities, a substantial increase in college attendance by American youth, and the lack of any direct military threats to American peace and prosperity.

Recruiting Resources and Quality Recruits

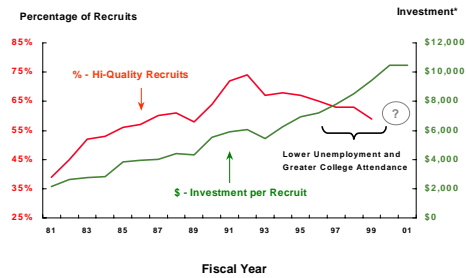


Figure 6

The Department has budgeted over \$2.2 billion for enlisted recruiting and advertising for FY 2001. This is 44 percent (32 percent after inflation) more than was spent in FY 1997, the last year in which all four Services achieved their recruiting goals. Today, we employ a macro-level measurement -- investment-per-recruit -- to provide a quick look at resource allocation trends. This measure takes the total resources dedicated to enlisted recruiting (enlistment incentives, military and civilian manpower, advertising, and recruiting support) and divides it by the total number of accessions.

Figure 7 shows the investment per recruit from FY 1997 to FY 2001. While total DoD expenditures are scheduled to grow in FY 2000 and FY 2001, Navy and Marine Corps investments-per-recruit both decrease from FY 2000 to FY 2001. The Navy's decline reflects the costs associated with a planned reduction of 500 recruiters in FY 2001 from the FY 2000 level (5,000 to 4,500).

Investment Per Recruit

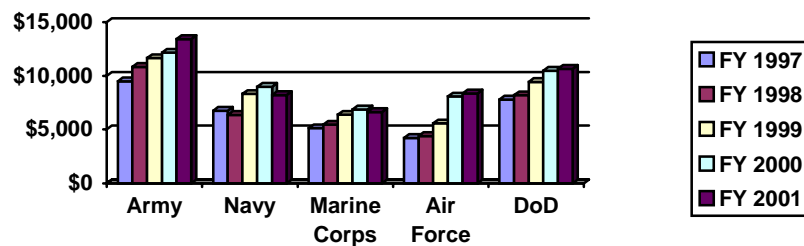


Figure 7

The Navy hopes that its increased investment in technology and innovative recruiting and advertising practices will allow this reduction. However, we understand the Navy is reviewing recruiter manning in light of an increased accession mission and the continuing challenge of the recruiting market. The Marine Corps' slight decline is a result of a five-percent increase in its recruiting goal; however, the investment-per-recruit remains above the FY 1999 level. We will closely monitor Service recruiting results both this year and next with an eye toward quickly identifying any need to reprogram resources.

EARLY ATTRITION

The Department remains concerned about the rate of attrition prior to completion of initial service obligations. Historically, the Services have lost about 30 percent of recruits over the first three years of service, with most leaving during initial entry training. Recent work by the General Accounting Office (GAO) and the Department have identified better methods to help reduce attrition while enhancing recruiting practices. Those reviews are generating improvements in medical screening, pre-enlistment testing for substance abuse, better coding of medical discharges as a means of improving feedback to medical screening officials, and improvements in the management of recruiter selection and incentives.

The GAO conducted several reviews concerning attrition and recruiter incentives. In a January 1997 report, "*MILITARY ATTRITION: Services Could Save Millions by Better Screening Enlisted Personnel*," the GAO offered several recommendations that the Department has adopted. Specifically, we have reinforced policies requiring use of the separation code that best identifies the reason for leaving service, and the use of recognized codes from the International Classification of Diseases (ICD) on all medical waivers and separations. In addition, we have standardized moral character waiver definitions, and reviewed policies and procedures across all Services. This effort will improve the quality and consistency of management information relating to military recruiting.

A second GAO report, "*MILITARY ATTRITION: Better Data, Coupled With Policy Changes, Could Help the Service Reduce Early Separations*," was completed in September 1998. In response to the recommendations, DoD directed the Services to complete a number of actions.

In a move designed to focus attention on early discharges, each Service reviewed its 90-day release policies and the exceptions granted to those policies. To more effectively address why some personnel separate early, the Services began collecting information on quality-of-life issues that may contribute to first-term separations. The Services also took action to increase the awareness of attrition costs and emphasized its adverse impact on the recruiting mission. In doing so, the Services acknowledged the importance of positive leadership in preventing premature separations. The Department also directed the Services to collect data on specific types of attrition that could be targeted for remedial attention, and to reassess the appropriateness of providing favorable types of discharges to enlistees whose questionable behavior or performance led to their early separation. This focus should ensure that proper incentives remain in place to encourage enlistees to complete their obligations.

In addition to initiatives prompted by the GAO studies, the Services have taken a number of steps to limit attrition. For example, the Army, Navy, and Air Force have special training units for individuals having difficulty meeting initial physical fitness requirements. The Army also has announced attrition rate reduction targets to keep their training and unit leaders mindful of the need to limit first-term personnel losses to those individuals who cannot become good soldiers. Navy leaders have issued wide-distribution guidance to subordinate commands, also reminding them of the importance of investing in the mentoring of those with a capacity to succeed. Further, we have recognized the need to monitor first-term attrition more closely, much as we track recruit quantity and quality, in order to identify early changes in attrition patterns. We are working with the Services to develop a common loss metric that will allow us to track first-term attrition in a more timely manner.

RETENTION

The "bottom line" of the military services is their readiness, readiness that is ensured through the retention of highly trained personnel. Because the military's personnel system is not conducive to lateral entry, the loss of mid-career leaders is also a loss of critical experience until a replacement can advance with comparable experience.

OFFICER CHALLENGES

Pilot continuation remains a major concern across all Services as they struggle to retain a sufficient number of pilots in an environment where civilian airlines continue to hire with the promise of better pay, benefits and quality of life. Air Incorporated, an independent agency that forecasts airline hiring requirements for the 14 major commercial airlines, predicted the airlines would hire almost 3,700 in 1999--actual hiring was 5,000. Currently, hiring is ahead of last year's record pace; Air Inc. expects record hiring this year.

The Air Force realizes the growing "cumulative effect" of sustained strong airline hiring and high OPTEMPO will continue to challenge their ability to fill requirements and eventually affect their overall readiness. Pilot continuation has steadily declined since 1996 with FY 1999 ending 1,200 pilots short. The Air Force's multi-faceted plan to address pilot shortages, focuses on reducing operations tempo, improving quality of life programs, increasing pilot production, continually reviewing non-flying pilot authorizations, and increased bonuses. The initial response to increased bonuses has been encouraging; however, we must temper any optimism until we analyze the take rates of those pilots completing their initial service commitment and receiving their initial bonus offering. Their "take rate" will be the true test of the bonuses' success.

The Navy completed FY 1999 500 aviators short of requirements. Shortages are most pronounced at the junior officer level (O-3 and below) due to a combination of low accessions, increased time-to-train and steadily decreasing retention over the last four years. The Navy's aviator bonus program is aimed at maintaining not only adequate numbers of quality career force aviators but also targeted to fill critical aviator billets. Early projections are encouraging and aviator resignations are beginning to show a decline after steady increases.

The Navy also faced continued manning challenges in two other critical career fields. Fiscal Year 1999 Surface Warfare Officer (SWO) continuation was the lowest of all officer career fields, forcing the Navy to increase its department head tour length from 36 to 44 months. There has also been a 15 percent decline in Special Warfare Officer Continuation over the past three years. Operations tempo and pay were cited as key reasons for leaving. The current

NDAA authorized initial bonus programs for both communities. Initial response is positive; however, it is still premature too fully assess the success of these programs.

The Marine Corps is able to meet aviator requirements within operational units; however, it is experiencing shortages in staff billets which are currently manned at 89% of total requirements. Consistent with other Services, high OPTEMPO and compensation are key factors influencing decisions to leave. The Marine Corps began to offer ACP to critical aviation specialties in FY 1997. Its FY 2000 program continues this focus with additional emphasis placed on fixed wing aviators. With this renewed focus on fixed wing aviators, the Marines feel confident that shortages resulting from previous under accessions and losses will be overcome.

Army pilot concerns focus on Apache Warrant Officer (WO) pilots and special operations trained Chinook WO pilots. Last year's initial bonus offering was extremely successful, and the Service anticipates the same response this year. The Army also remains concerned with their loss of captains (does not include medical, legal or chaplains) who – at 35 percent of its officer corps – are critical to unit performance. Recent survey data sights time separated from family, job satisfaction, and civilian job opportunities as primary reasons for leaving military service.

ENLISTED RETENTION

Today's economy is the strongest we have witnessed in the history of the All-Volunteer Force, and that economic promise has opened a range of opportunities in the private sector for those in uniform. The private sector's attraction to our enlisted personnel can be directly attributed to the discipline associated with military training, the level of responsibility we place on our personnel, and the technical training we provide.

While aggregate retention continues to show improvement, there are concerns in a number of enlisted technical specialties. Following is each Service's enlisted retention status through end of month January 2000.

- Army has achieved approximately 33 percent of its annual objective, and remains on course to achieve their aggregate goal of 68,000. Specific challenges exist within the

following career fields: intelligence analyst, aviation maintenance, linguists, and satellite communications specialists. The Army's FY 2000 initial payment SRB budget is \$73M, an increase of \$20M over FY 1999. They are currently offering SRB payments to 53% (141/267) of their skill sets.

- Navy has achieved approximately 35 percent of its annual objective, and remains on course to achieve their aggregate goal of 40,012. Specific challenges exist within the following career fields: fire control and electronic technicians, aviation maintenance, communications/signals and missile technicians. The Navy's FY 2000 initial payment SRB budget is \$120M, an increase of \$18M over FY 1999. They are currently offering SRB payments to 61% (53/87) of their skill sets.
- Air Force has achieved approximately 32 percent of its annual objective, of 40,900. If the current retention trends do not improve, the Air Force will miss annual goal in first- and second-term retention. Specific challenges exist within the following career fields: aviation avionics and maintenance, linguists, communications-computer operators/maintainers and air traffic controllers. The Air Force's FY 2000 initial payment SRB budget is \$95M, an increase of over \$33M from FY 1999 levels. They are currently offering SRB payments to 70% (146/207) of their skill sets.
- Marine Corps has achieved approximately 48 percent of its annual objective, and remains on course to achieve their aggregate goal of 12,700. Specific challenges exist within the following career fields: communications-signal, aviation avionics and maintenance, intelligence analysts. The Marines' FY 2000 initial payment SRB budget is \$24M, an increase of \$9.2M over FY 1999. They are currently offering SRB payments to 52% (158/303) of their skill sets.

We continue to identify and address factors that influence retention and recognize that not all solutions are monetary. Senior leadership continues to work the difficult and challenging issue of managing personnel tempo. Ongoing initiatives focus on enhancing predictability, distributing missions to the "Total Force," protecting quality-of-life during the inter-deployment period, and tracking deployment time to the individual level.

HELPING RETENTION -- TEMPO MANAGEMENT

Personnel tempo (PERSTEMPO), defined as the time an individual spends away from his or her home station, is an important component of force stability. Statistical data would indicate that units deployed on initial contingency operations exhibit higher retention rates. Survey and anecdotal feedback indicates continued involvement in contingency operations adversely affect retention. As we study the effects of tempo, we must be cautious and underscore the difference between "point in time" reenlistment rates and longitudinal retention rates. Our efforts seek to ensure that service members are not driven from the military by excessive time away from home. Deployments are a part of military life. The number and frequency of deployments, however, are increasing at a time when the size and permanent forward presence of the armed forces is declining.

While this increased tempo has affected all of the Services, it is especially troublesome in certain specialized units that are constantly in demand but possessed in only limited numbers, such as airborne reconnaissance platforms. Increasing deployments can also place a greater strain on those personnel who remain at home station because their workload increases to cover ongoing duties normally performed by the deployed personnel. These commitments stress unit training and morale, as unit commanders must carefully balance military training requirements with the stability necessary for the long-term health of military families.

The Department is addressing this challenge through a commitment to quality of life initiatives, which focus on enhancing predictability, distributing missions to the "Total Force," and protecting quality of life during the inter-deployment period. The Department remains committed to the establishment of metrics to support close review of emerging trends in the pace of operations, including analyses of individual tempo levels.

HELPING RETENTION -- QUALITY OF LIFE AND COMPENSATION

The Department is determined to provide military members with a quality of life comparable to the private sector, because it is so critical to career choices. Just as America's expectations for a suitable quality of life have risen in the last decade, so too have military

members come to expect a standard of living comparable to their civilian counterparts. Fifty-eight percent of the force is now married, making health care, housing, dependent education, and spouse employment important factors for retention and satisfaction with the military lifestyle.

In recognition of the extraordinary efforts of the men and women serving in the Armed forces today, the President and Congress instituted the most sweeping changes in military compensation in a generation. The major components of the fiscal year 2000 “compensation triad” included across-the-board pay increases, targeted raises through a pay table reform, and reform of the military retirement system.

The January 1, 2000 pay raise of 4.8 percent for all military members was the largest since 1981. It was one-half percentage point higher than the Employment Cost Index (ECI) as will be the raises through 2005. This will ensure that Service members’ pay remains ahead of private sector wage growth and will help to ensure that pay can compete against a wide array of civilian workforce and education alternatives in order to attract and retain high quality personnel.

In addition to the across-the-board pay raise, beginning July 1, 2000, we will implement targeted pay increases with a pay table reform. These raises are targeted at the grades where experience, skills, and knowledge are most valuable to the Services and to the larger civilian economy. The maximum targeted pay increases range up to 5.5 percent and come on top of the 4.8 percent that all military personnel received on January 1, 2000. This is a one-time restructuring of the pay table that will relieve compression between grades and shift the emphasis back to rewarding promotion rather than longevity. Placing greater emphasis on promotion will better recognize non-commissioned officers and commissioned officers for their performance.

Military retirement has been dramatically improved for our younger service members. The reduced system that was to apply to those entering service on or after August 1, 1986 no longer automatically applies. However, members may voluntarily elect to remain under the reduced system and receive a \$30,000 career-retention bonus at the 15th year of service anniversary. The improved system should be attractive enough that many members will prefer it over the existing system that pays 50 percent of an average of the highest three years of basic pay.

The first members to face the choice will receive information about January, 2001 and will have to make their choice by August 1, 2001. Meanwhile, we will be educating members about the choice so they will have enough information to make an informed decision. We have already fielded a web site, including an interactive retirement calculator, to explain the implications of making this choice. The site can be found at: <http://pay2000.dtic.mil>

RETENTION INITIATIVES

While it is too early to measure the impact of compensation and retirement changes, since the first tangible results of the pay raise showed up in the paychecks in January of this year, and the targeted increases will take place in July, the promise of long-term, fair and equitable compensation could potentially stabilize aggregate retention patterns, allowing the Department to focus on retaining critical skills.

Shortages in selected highly technical specialties continue to present retention challenges. Congress' funding of FY 2000 Selective Reenlistment Bonus (SRB) accounts helped in our ability to retain many of our highly technically trained personnel. Under current law, the Secretaries of the Military Departments are permitted to pay full-lump-sum reenlistment bonuses; however, a Defense Appropriations provision (section 8021) limits payments to half-lump-sums, with the remainder paid in anniversary installments. RAND Corporation research entitled, "Reenlistment Bonuses and Retention Behavior" concludes that for first-term retention (our key target), lump sum bonuses are more cost effective.

While our downsizing may have resulted in some unintended consequences, I am not aware of another organization that could have executed a one-third reduction in personnel strength, while increasing tempo and commitments on a global level, as well as the Armed Forces did. I mention this because we need your support in extending the authorities Congress provided with respect to force shaping tools (VSI, SSB, TERA). Current authority will expire December 2000; we would like this authority extended for 3 additional years. While there is no need for extensive use, maintaining these authorities allows us to shape selected career fields and grades.

ENHANCEMENTS IN FY 2001

The Department's Fiscal Year 2001 budget builds upon last year's major improvements. The major components of the fiscal year 2001 compensation package include a 3.7% military pay raise, improved housing allowances, and enhanced special and incentive pays. We are closely reviewing potential adjustments to the ceiling for Special Duty Assignment Pay, and to the potential for an enlistment bonus for two and three year enlistments in the Navy as a means of enhancing its ability to attract qualified recruits.

MILITARY PAY RAISE

Pay raises send a clear signal that our nation recognizes the demands and sacrifices of military service. The proposed military pay raise for 2001 of 3.7 percent is equal to the average growth in private sector wages and salaries plus one-half percent. This pay raise ensures that service member pay growth is once again ahead of private sector wage growth. Taken together with the January and July 2000 raises, this raise will result in average pay being more than 10 percent greater than 1999 pay levels. These pay increases help to attract and retain the high quality recruits our Services need. The proposed 3.7 percent across-the-board pay raise costs \$1.6 billion in fiscal year 2001 and has a total cost of \$10 billion over fiscal years 2001 through 2005.

IMPROVED HOUSING ALLOWANCES

Secretary Cohen recently announced a plan to increase housing allowances enough to lower average out-of-pocket expenses from the current 18.8 percent in 2001, and to eliminate them altogether by 2005. This will result in increased housing allowances everywhere in the country for an E-6, for example, of \$35 next year and \$175 by 2005, in addition to any increases resulting from increasing housing costs over that same period. When completed, this initiative will allow us to set housing allowances high enough to pay the median rent for each type of housing measured in every stateside location. This initiative is fully funded in the Department's FY 2001 Budget. It will cost \$160 million in 2001, growing to \$1.4 billion by 2005.

This major initiative will benefit Service members and improve their quality of life in three significant ways. Higher allowances will help members living off base better afford the cost of off-base housing. Members will have higher disposable incomes and, because the housing

allowance is not taxable, they will be able to spend all of the new money on housing. Second, Service members on and off base will benefit from improved quality of housing because of the positive effect that higher allowances will have on privatization initiatives. In these programs, private developers provide and maintain housing for members, in exchange for housing allowances. Such initiatives can provide new housing in areas where available housing is limited. Privatization efforts also can significantly improve the quality of existing military housing by turning units over to a private developer to renovate and maintain. Finally, the benefits of both better allowances and increased use of privatization efforts will allow for more efficient use of current Military Construction funding. Private developers will take over some housing, build new housing, and allow for demolition of high-maintenance, substandard housing. The Services then will be able to better maintain and renovate the remaining government quarters.

HEALTH CARE INITIATIVES

We must continue to press forward with improvements in health care, recognizing that this is an extremely important influencer of retention. The areas we must stress include: fully funding the Defense Health Program, eliminating copayments for active duty family members enrolled in TRICARE Prime, and extending TRICARE Prime Remote coverage to active duty families accompanying service members assigned to locations without access to TRICARE Prime (recruiters, etc.). Improvements in these areas will serve to improve quality of life for all service members and their dependents.

SUMMARY

The prosperity enjoyed by America today has lowered unemployment and elevated opportunities for young people to attend college. However, those patterns challenge recruiting and retention efforts, which in turn generates a demand for programs to rekindle interest in military service

Recruiting and retaining America's All-Volunteer Force is a multi-faceted effort that increasingly requires flexibility and innovation in meeting the challenges of the current environment. We remain grateful for your unflagging interest in those who serve, and for your enormous concern for the readiness of today's -- and tomorrow's -- military units around the world.